7 October 2021

Bank of Albania
Monetary Policy Department

European Commission[1]

Business and Consumer Confidence Survey

The **Economic Sentiment Indicator** (ESI) fell by 1.8 points (to 107.6) in September. This downward trend has started since August 2021, after the considerable increase recorded during the first seven months of 2021. However, the current level of ESI stands 7.6 points above the long-term average (Chart 1). The fall of confidence in the sectors of construction and services determined the decrease of ESI. On the other hand, confidence in the sectors of industry and trade, along with consumer confidence, improved in September (Chart 2).

Chart 1 Economic Sentiment Indicator (ESI)
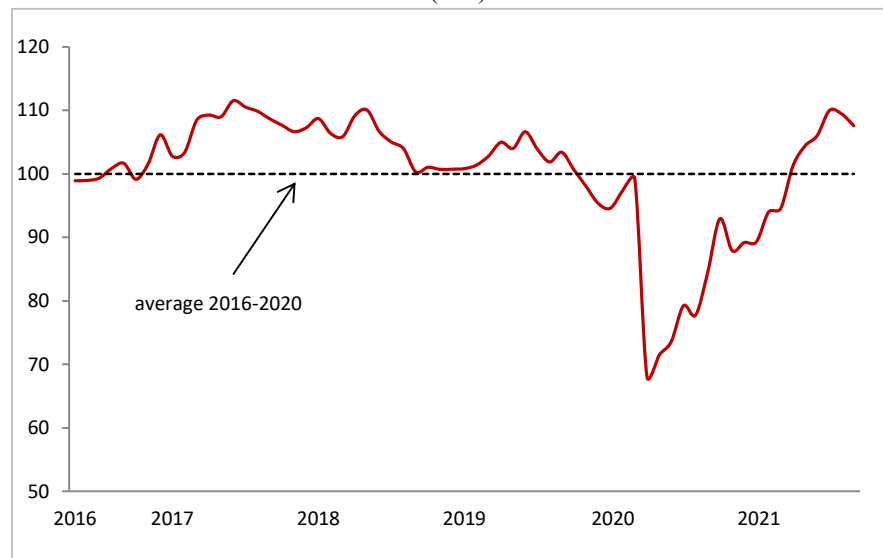
Source: Business and Consumer Confidence Survey, Bank of Albania.

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[1] Confidence surveys are co-funded by the European Union and the Bank of Albania. In May 2016, they moved under the Harmonised EC Programme. Since June 2021, the analysis and data from surveys will be published on a monthly basis.

Industry Confidence Indicator (ICI) increased slightly by 0.2 percentage point compared to the previous month, mainly driven by the positive performance of *order books from exports*. On the other hand, balances for *production* and *overall order books* edged down compared to August 2021. The capacity utilization rate in industry stood at 78.9%, in 2021 Q3[2], around 2.9 percentage points higher than the previous quarter. The indicator of businesses' *financial situation* in industry sector continued to improve compared to the previous quarters (Table 2-Industry).

Construction Confidence Indicator (CCI) dropped by 6.4 percentage points in September, contrary to its positive trend in the last months. Nevertheless, the level of CCI is considerably higher than its historical average (*Chart 2*). This fall reflected the assessments of businesses for a lower level in *construction activity* and *current order books* (Table 2 - Construction). The capacity utilization rate in construction stood at 69.9% in 2021 Q3, around 3.1 percentage points higher than in the previous quarter. Also, the *indicator of financial situation* improved considerably.

Chart 2 Confidence indicators by sector[*]
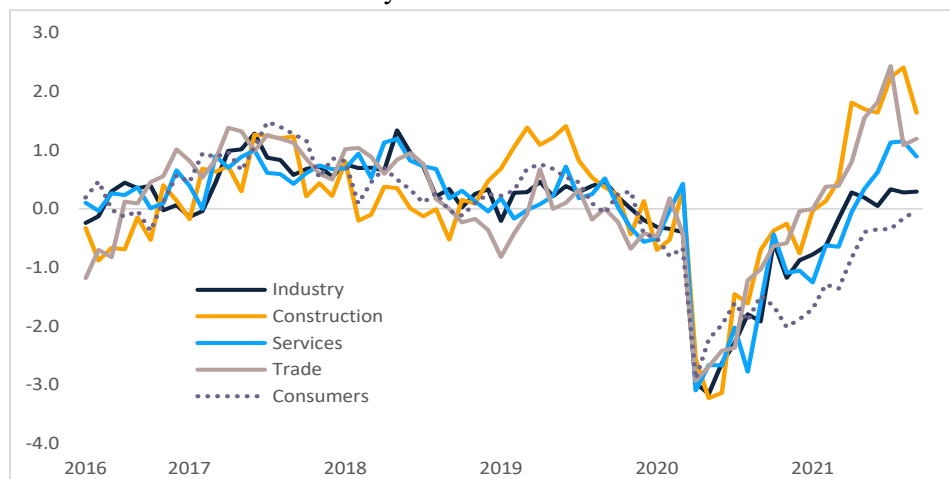
Source: Business and Consumer Confidence Survey, Bank of Albania.
Note: *The chart shows standardised series, to correct the changes in averages and in standard deviations of the respective confidence indicators.

Services Confidence Indicator (SCI) fell by 4.2 percentage points, after the increase experienced for some months in a raw. Notwithstanding this development, the level of SCI remains above the long-term average. This fall was driven by both components related to *current business performance* and *demand* (Table 2-Services). The capacity utilization rate in services stood at 81.1%, in 2021 Q3, around 5.4 percentage points higher than in the previous quarter. The indicator of businesses' *financial situation* in services sector improved considerably compared to the previous quarters.

Trade Confidence Indicator (TCI) picked up by 1.0 percentage point compared to the previous month. This increase was driven by the businesses assessments on their *current business performance*; while expectations for employment have declined (Table 2 - Trade). The capacity utilization rate in trade stood at 78.7%, in 2021 Q3, around 3.9 percentage points higher than in the previous quarter. On the other side, the indicator of *financial situation* decreased slightly.

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[2] Additional questions to enterprises related to capacity utilisation rate and the financial situation are developed on quarterly basis and are included in the questionnaires of March, June, September and December.

Consumer Confidence Indicator (CCI) edged slightly up in September 2021, by pursuing the upward trend and reaching at its long term average (Chart 2). This increase was driven by the component of expectations for the *financial situation* and was accompanied by slight rises in both components: *current purchase*s and *related expectations*. The component of *expectations for the overall economic situation* was the only one recording a fall. (Table 2 - Consumers).

Chart 3 Business situation by sector over the past three months
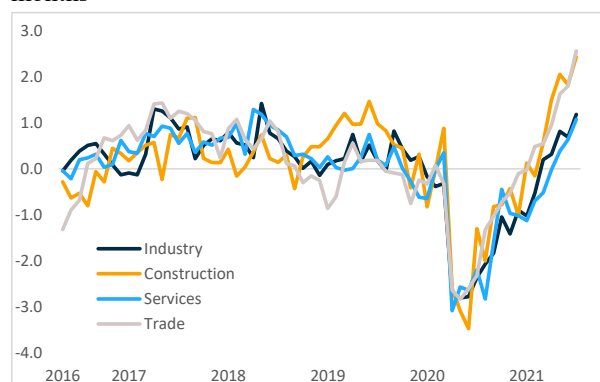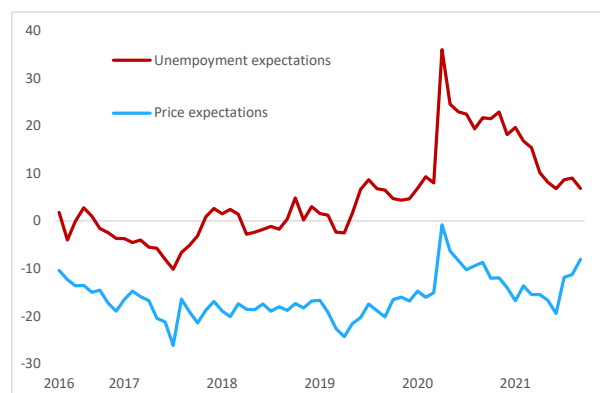

Source: Bank of Albania.

Chart 4 Business expectations over the next three months
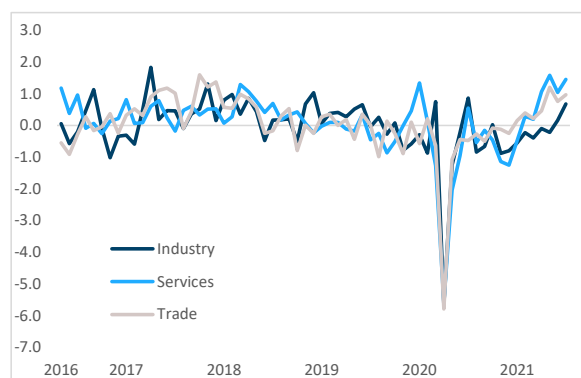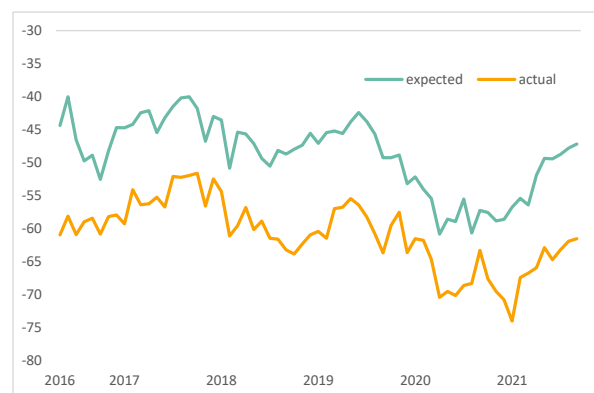

Source: Bank of Albania.

Chart 4 Expectations for unemployment and prices over the next 12 months, in balance

Source: Bank of Albania.

Chart 5 Major purchases of consumers, in balance

Source: Bank of Albania.

Table 1 Confidence indicators by sector[*]

	Values			2021						Current situation	
	min.	ave.	max.	April	May	June	July	August	September	Conjectural**	Structural***
Industry	-60.4	-12.6	7.6	-8.4	-9.8	-11.9	-7.6	-8.4	-8.2	↑	+
Construction	-57.1	-30.3	-10.3	-15.3	-16.2	-16.7	-11.7	-10.3	-16.7	↓	++
Services	-46.8	3.8	23.4	3.0	9.4	13.9	22.3	22.6	18.4	↓	+
Trade	-32.5	-4.3	19.1	3.4	10.6	13.2	19.1	6.2	7.2	↑	++
Consumer	-40.7	-24.5	-16.2	-29.2	-26.7	-26.4	-26.4	-25.4	-24.6	↑	=

Source: Business and Consumer Confidence Survey, Bank of Albania.
*) *Indicators are calculated from seasonally adjusted balance. The minimum, average and maximum balances are calculated starting from May 2016.*
**) *Situation compared to the previous month.*
***) *The situation for each indicator is considered as highly satisfactory (+ +) when the index is more than 1 standard deviation higher than the average; satisfactory (+) when the index is less than 1 standard deviation higher than the average; unsatisfactory (-) when the index is less than 1 standard deviation lower than the average; and highly unsatisfactory (--) when the index is more than 1 standard deviation lower than the average.*

Table 2 Main balances of the sectors of the economy (in percentage points)*

	2021								
	January	February	March	April	May	June	July	August	September
INDUSTRY									
Production over the past three months *(question 1, ICI component)*	-14.1	-10.0	-2.5	-6.9	1.4	8.3	27.5	31.4	29.0
Order books *(question 2, ICI component)*	-23.7	-26.1	-24.0	-21.7	-20.4	-23.0	-15.8	-13.2	-13.9
Export order books *(question 3, ICI component)*	-26.7	-34.2	-34.9	-20.1	-27.3	-38.2	-27.5	-24.8	-19.1
Stock of finished product *(question 4)*	-12.3	-10.7	-6.7	-4.5	-1.5	-4.8	-4.6	-6.0	-5.1
Production, expectation *(question 5)*	16.1	29.2	29.2	38.3	39.7	50.3	42.3	30.8	26.3
Selling prices, expectation (question 6)	1.0	5.7	7.7	10.5	9.0	12.5	15.8	14.3	18.0
Employment, expectation (question 7)	-6.0	3.8	7.1	3.0	9.6	12.2	18.5	8.1	11.2
CONSTRUCTION									
Construction activity over the past three months *(question 1, CCI component)*	-11.6	-14.8	-6.6	4.2	10.5	7.9	14.8	12.1	5.2
Order books *(question 3, CCI component)*	-49.5	-43.6	-46.0	-34.7	-42.9	-41.3	-38.2	-32.7	-38.6
Employment, expectation *(question 4)*	4.8	1.4	7.5	9.9	8.0	14.7	15.5	13.0	11.7
Prices, expectation *(question 5)*	5.9	7.0	10.2	9.5	7.2	10.5	9.0	12.9	17.1
SERVICES									
Business situation over the past three months *(question 1, SCI component)*	-14.4	-7.2	-4.2	4.1	10.9	15.1	22.4	20.8	16.7
Demand over the past three months *(question 2, SCI component)*	-19.0	-5.5	-9.3	1.8	7.9	12.8	22.2	24.3	20.1
Demand, expectation *(question 3)*	19.5	27.4	26.5	35.5	40.8	35.2	39.5	38.4	20.3

Employment over the past three months *(question 4)*	-14.8	-13.2	-8.4	-5.4	-5.0	1.8	19.4	15.2	4.8
Employment, expectation *(question 5)*	5.5	9.4	4.4	14.1	13.9	14.3	19.0	21.0	8.4
Prices, expectation *(question 6)*	-6.2	3.4	4.5	3.2	0.0	8.9	8.7	5.3	8.4

TRADE									
Business situation over the past three months *(question 1, TCI component)*	-8.7	-0.4	0.5	7.2	18.0	20.9	33.3	9.6	12.7
Inventories situation (question 2)	-5.1	-6.4	-4.0	-5.9	-1.1	1.9	-1.5	-0.9	-0.2
Future orders, expectations	21.4	22.0	18.6	21.9	28.3	28.3	31.3	27.9	21.0
Business performance, expectations *(question 4)*	24.0	27.1	24.8	27.9	37.4	31.7	34.5	33.7	24.4
Business performance, expectations *(question 5, TCI component)*	0.0	-0.8	-1.5	-0.4	3.2	5.5	5.0	2.8	1.7

CONSUMER									
Current financial situation (question 1)	-15.8	-15.0	-17.4	-15.8	-10.1	-11.9	-10.8	-9.7	-7.2
Financial situation, expectation *(question 2, CCI component)*	-0.1	0.8	0.2	1.3	3.4	4.2	4.1	4.6	7.7
Current financial situation (question 3)	-29.4	-24.1	-26.4	-25.3	-20.0	-19.3	-20.5	-18.5	-17.9
Economic situation, expectation *(question 4, CCI component)*	-5.3	-4.7	-5.3	-0.2	2.1	4.2	2.2	3.7	2.4
Current prices *(question 5)*	-6.2	-6.3	-4.6	-5.3	-5.2	-3.1	2.0	-0.6	0.3
Prices, expectation *(question 6)*	-16.8	-13.6	-15.5	-15.4	-16.7	-19.4	-11.8	-11.2	-8.0
Unemployment, expectation *(question 7)*	19.6	16.8	15.4	10.2	8.1	6.8	8.7	9.0	6.8
Current major purchases *(question 8, CCI component)*	-74.0	-67.4	-66.7	-65.9	-62.9	-64.7	-63.2	-61.9	-61.5
Major purchases, expectations *(question 9, CCI component)*	-56.8	-55.4	-56.4	-51.9	-49.4	-49.4	-48.7	-47.8	-47.2
Current savings *(question 10)*	-52.4	-50.0	-51.4	-49.5	-47.1	-45.9	-45.4	-42.2	-43.8
Savings, expectation *(question 11)*	-52.4	-49.9	-49.7	-48.5	-45.2	-44.2	-44.6	-41.0	-42.1
Current financial situation (question 12)	-0.7	1.1	-0.9	0.8	2.7	2.6	2.4	4.7	4.0

Source: Business and Consumer Confidence Survey, Bank of Albania.

Annex

Methodological notes

Balance is the most frequently used indicator in aggregating the qualitative data from surveys. It is calculated as the difference between the percentages of positive and negative answers. The balance is expressed in percentage point.

Confidence Index (CI) is constructed for each sector and is calculated as the simple average of seasonally –adjusted balances of indicators that have the highest correlation with the reference series (the series of real data of the economy).

Economic Sentiment Indicator (ESI) is constructed based on the same balances use for constructing CIs for each sector (industry, construction, services, trade and consumers), aiming to capture the domestic economic activity. Before aggregating the ESI, these balances are standardized and weighted.